June 16, 2003

HOUSEHOLD/BENEFICIAL FINANCE

DISTRIBUTION PLAN FOR UTAH CUSTOMERS

To ensure that the settlement amount received from Household Finance is distributed as fairly as possible, Utah's Household/Beneficial Finance Distribution Plan takes into consideration those factors that contributed harm to customers of Household and Beneficial. Those factors include the type of loan, the loan size, the length of time the loan was outstanding, and different levels of injury for different predatory practices discussed below.

Step 1: Determine Categories of Harm Meriting Additional "Credits"

"Credits" (C) were assigned to those loans that had been the subject of the worst abusive practices. Accordingly, we first determined which categories of harm should result in the award of "credits." Credits were awarded for the following practices:

	Category	Threshold
•	**Points**	Greater than three.
•	**Interest rates**	Interest rates that exceeded 12% for real estate loans and 18% for PHL loans.
•	**Prepayment Penalties**	Exceeding 3% of the loan amount (which were not refunded).
•	**Insurance**	Any purchase of loan insurance, life insurance, or disability insurance (which was not refunded in whole).
•	**Loan to Value Ratio**	Loans with an LTV exceeding 100%

The Credit Chart, with a breakdown of how credits will be allocated in each category is at the end of this distribution plan.

Step 2: Weighting of Categories

After identifying the categories deserving of extra compensation, the categories were weighted according to the impact of the harm.

Prepayment penalties and the purchase of insurance constitute the base level of harm; they are be assigned one credit (C). The loan-to-value (LTV) category was weighted at 50%. In other words, each additional level of high LTV would receive credits in increments of one-half. The "point" category was weighted at twice the base level.

The Interest Rate category was more complex, and a separate base system was set up to award credits according to the length of time a loan was outstanding at each interest rate. Credits for interest rate harm were calculated by multiplying the base credit (BC) by the number of years

(t) the interest rate was in place. (Interest rate reductions were treated as a start of a new loan. Therefore, the time-adjusted credits under the old interest rate were added to the time-adjusted credits under the new interest rate). ***(C = BC x t)***

For example, if loan A was a RE loan and had an APR of 17% for 3 years, this loan would receive 4.5 credits (17% allows for 1.5 credits (see our Credit Chart), so 1.5 x 3 yrs = 4.5 credits). However, if loan B was a RE loan and had an APR of 17% for 1 year, then had a reduction to 14% that was effective for 2 years, we calculate the following: the 17% rate allows for 1.5 credits x 1 year = 1.5 credits for the period before the rate reduction; the 14% rate allows for 1 credit x 2 yrs = 2 credits for the period after reduction. Then, the credits from both loans are added: 1.5 + 2 = 3.5 total credits. Thus, loan B qualifies for 3.5 credits (C) under the interest rate category.

Step 3: Calculate Credits, Convert into "Adjusted Credits" based on Loan Size

Once the number of credits was determined, a value was assigned to each credit. *We decided the value of some of the credits should be variable, depending on the size of the loan and the length of time the loan was outstanding. We did not think it would be fair to have a credit be worth the same amount to a borrower of $150,000 as another who had borrowed only $25,000. This weighting of the credits according to the loan size was done by converting the "Credits" into "Adjusted Credits."*

a) The number of "Loan Credits" (LC) earned for each loan was calculated by totaling the credits awarded on each loan (based on the Credit Chart). ***LC = sum of all C***

b) We then determined the total number of credits earned on all loans in Utah (TC), by adding the loan credits from all loans. ***TC = sum of all LC***

c) By dividing the total number of credits by the total loan size in Utah ($367 million) we arrive at a fractional 'multiplier' (mLS) that permits each borrower's credits to be adjusted by loan size - resulting in "Adjusted Credits" (credits based on the loan size). ***mLS = TC/TLS***

d) "Adjusted Credits" (AC) for each loan were calculated by multiplying the number of loan credits (LC) for each loan by the size of the loan (LS), and the multiplier (mLS). The AC takes into consideration the size of the loan, so customers with same number of points but different loan amounts get different amounts of recovery. ***AC = LC x LS x mLS***

e) Finally, we calculated the total number of Adjusted Credits (TAC). ***TAC = sum of all AC***

Step 4: Calculate Value of Adjusted Credits, Revealing Recovery Amount for Each Loan

a) To determine the value of Adjusted Credits in terms of the dollar amount of Total Recovery (TR)[1], we divided the total amount of recovery (TR) by Total Adjusted Credits (TAC). This 'multiplier' gave us the dollar amount that each Adjusted Credit (AC) is worth. ***mAC = TR/TAC***

b) The recovery amount (R) for each loan is based on the number of Adjusted Credits earned on each loan, times the multiplier (mAC). ***R = AC x mAC***

c) The recovery amounts for all loans equals the Total Recovery. ***TR = sum of all R***

Step 5: Determine Minimum Payments to Each Borrower

We also decided that every Household customer should receive at least a minimum payment of $50. For example, if, based on Adjusted Credits calculation, the borrower is only entitled to $23, we will add $27 necessary to make the $50 minimum.

Conclusion*:*

We used two formulas to determine the recovery amount that should be paid to each borrower. The first determined the Adjusted Credits (which takes into consideration the size of the loan). The second step determined how much each Adjusted Credit was worth in terms of the Recovery dollars. This process should result in each borrower receiving compensation that recognizes : 1) the number of harms suffered, 2) the severity of the harms, 3) the length of time each harm was suffered, 4) the number and size of loans received from HFC, and 5) a guaranteed minimum amount of recovery.

[1]The funds available for distribution to Utah customers consist of Utah's share of the national settlement amount ($4,339,634), plus $50,000 Utah had received from Household in attorneys fees, plus interest that has accumulated since we have received the money. We expect the amount available for payment to consumers will be close to $4,440,000.

CREDIT CHART: DETERMINING CREDITS FOR UNUSUAL HARMS

Harm	Range	BC	# of Credits (C)	% of Loans
1. **Interest Rates**	6-11.999%	0	BC x t	42.49%
RE loans:	12-14.999%	1	BC x t	38.82%
BC = base credit (1 yr)	15-17.999%	1.5	BC x t	12.71%
C = BC x t	18-20.999%	2	BC x t	4.13%
	21-23.999%	2.5	BC x t	1.76%
t = number of years	24 & above	3	BC x t	.09%
PHL Loans	6-17.999%	0	BC x t	10.34%
	18-20.999%	1	BC x t	16.76%
	21-23.999%	1.5	BC x t	57.30%
	24 & above	2	BC x t	15.61%
2. Points/Origination fees	0-2.999%		0	8.11%
	3-4.999%		2	3.07%
	5-6.999%		4	59.70%
	7 & above		6	29.12%
3. Prepayment Penalties (unrefunded)	0-2.999%		0	98.12%
	3-4.999%		1	.11%
	5-6.999%		2	1.22%
	7-8.999%		3	.26%
	9-10.999%		4	.17%
	11 & above		5	.12%
4. Insurance (not refunded in whole)				
Loan Insurance	No		0	99.25%
	Yes		1	.75%
Life Insurance	No		0	83.00%
	Yes		1	17.00%
Disability Insurance	No		0	88.07%
	Yes		1	11.93%
5. Loan to Value Ratio	1-99.99%		0	42.2%
	100-109.99%		.5	37.7%
	110-119.99%		1	17.3%
	120-129.99%		1.5	1.9%
	130 & above		2	.9%